

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Lempert Analyst: Jeani Brent Bill Number: AB 2095

Related Bills: See Prior Analysis Telephone: 845-3410 Amended Date: 05/08/2000

Attorney: Patrick Kusiak Sponsor:

SUBJECT: Scholarshare Trust Contribution Refundable Credit/FTB Report Annually to Legislature Regarding Utilization of Credit

☒ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as amended 04/10/2000.

☐ AMENDMENTS IMPACT REVENUE.

☒ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as amended 04/10/2000.

☐ FURTHER AMENDMENTS NECESSARY.

☐ DEPARTMENT POSITION CHANGED TO _____.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED 04/10/2000 STILL APPLIES.

☐ OTHER - See comments below.

SUMMARY OF BILL

Under the Personal Income Tax Law (PITL), this bill would allow taxpayers a refundable credit for contributions by a qualified taxpayer to a Scholarshare trust made on behalf of any qualified beneficiary. The credit amount would equal a specified percentage, determined by the taxpayer's filing status and adjusted gross income (AGI), not to exceed \$200 per qualified beneficiary.

This bill also would require the department to report, to the extent data is available, on the utilization of the credit allowed under the bill.

SUMMARY OF AMENDMENT

The May 8 amendments made a significant number of changes, including:

- Made the credit refundable;
- Clarified the credit amounts;
- Allowed the credit to any individual who makes contributions on behalf of any qualified beneficiary, not just a dependent;
- Included head of household filers with the AGI limitations with joint filers;
- Removed the penalty provision;
- Changed the operative and sunset dates to apply to transactions rather than taxable or income years;
- Clarified the reporting requirement; and
- Deleted the provision that would deny the credit if a deduction is allowed for the same expense.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Legislative Director

Date

Johnnie Lou Rosas

5/15/00

The May 8, 2000, amendments were discussed in the department's prior analysis of the bill as amended April 10, 2000, and included to resolve a number of implementation and technical concerns and to address the author's request that the credit be refundable.

The policy concern in the department's prior analysis regarding refundable credits being considered a public benefit still applies. The majority of the department's implementation and all of the technical concerns have been resolved. The remainder of the department's prior analysis still applies, including the implementation concerns, department costs, and revenue estimate regarding a refundable credit, which have been restated below for convenience.

IMPLEMENTATION CONSIDERATIONS

1. The department has not administered a refundable tax credit under the PITL since the refundable renter's credit was suspended in 1993. Establishing a refundable tax credit program would have a significant impact on the department's programs and operations and would require extensive changes to forms and systems.
2. Historically, refundable credits (such as the state renter's credit, the federal Earned Income Credit and the federal credit for gasoline used for farming) have had significant problems with invalid and fraudulent returns.
3. The department would need some time to develop adequate programs and operations to mitigate the potential for fraud and to ensure taxpayers receive the refund amount they are due. However, the operative date of this bill (applying to contributions made on or after January 1, 2000) would make it difficult for the department to put in place necessary programs prior to the time taxpayers could file returns claiming the refund. Specifically, if this bill is enacted in late September 2000, taxpayers could begin filing returns claiming the refund as early as January 2001.

DEPARTMENTAL COSTS

The department's costs to administer the bill would be as follows:

The costs for the department to administer this bill are estimated to be \$87,871, including one time implementation costs of \$78,812, for fiscal year 2000 and would increase each year as volumes increase until they reach a maximum of \$267,777 in 2007. It is estimated that this bill would require the department to incur one additional personnel year (PY) in 2000, increasing to a total of 6.1 PYs in 2007.

The costs were calculated using the following assumptions based on information the department received from TIAA-CREF Tuition Financing, Inc., which manages the Golden State Scholarshare program.

- Population of taxpayers would start at 27,000 in 2000 and increase to approximately 350,000 in 2007.
- All filers claiming this credit are assumed to be taxpayers who currently file a return. It is not anticipated that this credit would encourage persons who do not currently file a return to file one just to claim the credit.

Note that if the refundability of this credit results in the credit being a "state public benefit" as discussed in "Policy Considerations" in the prior analysis, the departmental costs to administer the bill could be considerably greater.

Tax Revenue Estimate

Based on limited data and assumptions discussed below, this bill would result in the following revenue losses under the PITL.

Estimated Revenue Impact of AB 2095 As Amended May 8, 2000 [\$ In Millions]		
2000-01	2001-02	2002-03
(\$3)	(\$9)	(\$15)

Estimates assume the bill would be effective with contributions made on or after January 1, 2000, with enactment assumed after June 30.

This estimate does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

BOARD POSITION

Pending.